

# WEST MICHIGAN

## 2ND HALF 2020 / 2021 OUTLOOK

### MARKET OVERVIEW

West Michigan comprises a 10 county region which includes Berrien, Cass, St. Joseph, Calhoun, Kalamazoo, Van Buren, Allegan, Ottawa, Kent, and Muskegon. Grand Rapids is the second largest city in Michigan and has been experiencing rapid growth over the past decade with over 200,000 residents.

The city has a long history of furniture manufacturing, dating back to the 1800s. Today, West Michigan is a manufacturing hub which includes not just furniture, but automotive, medical devices, food processing, aerospace, and defense. The region has over 141,315 manufacturing jobs and 2,452 manufacturers. AdvisorSmith ranked Grand Rapids in 2020 No.3 on their 2020 list of "Top Cities Where U.S. Manufacturing is Thriving". Some major employers in the manufacturing sector include: Gentex Corporation (5,800), Amway (3,791), Herman Miller, Inc. (3,621), Perrigo (3,500), Steelcase, Inc. (3,500), Lacks Enterprises (3,000), Arconic (2,350), Roskam Baking Co. (2,090), Haworth Inc. (2,000), Wolverine Worldwide, Inc. (1,500), GE Aviation (1,100), Bissell, Inc. (600), and The Kellogg Company (992).

Healthcare is also an economic driver. Spectrum Health is headquartered in Grand Rapids and is West Michigan's largest employer with 25,000+ employees. Spectrum has several world class facilities in Grand Rapids including the Meijer Heart Center, Lemmen-Holton Cancer Pavilion, Spectrum Health Cancer Pavilion, Spectrum Health Helen DeVos Children's Hospital, and Butterworth Hospital, a level I trauma center. The area northwest of downtown on Michigan Street is known as the Medical Mile. Several medical research and life science facilities are located here, drawing medical talent to the area and spurring residential and retail growth. The internationally recognized Van Andel Institute is the 2nd highest endowed medical research facility in the country. Because of all the research facilities here, Michigan State University moved its medical school to Grand Rapids from Lansing in 2010. Other medical systems in the region are also major employers, including Mercy Health Saint Mary's (8,500), Metro Health Hospital (2,100), and Metron Integrated Health Systems (700).

The region has a diverse economy which also includes retail, education, finance, and insurance. Major employers in the sector include: Meijer (10,340), Gordon Food Service (5,000), Farmers Insurance Group (3,500), Grand Valley State University (3,300), Fifth Third Bank (2,062), SpartanNash (2,000), Independent Bank (800), Calvin University (797), and Gerber Life Insurance Company (569).

Grand Rapids is sometimes referred to as Beer City as it boasts more than 40 craft breweries in the metro area. The entire region is home to over 80 breweries, distilleries, and meaderies. Two of the country's top breweries are located here, including Bell's in Kalamazoo and Founders in Grand Rapids. Breweries support the tourism industry, bringing thousands of people each year to West Michigan. Kent County alone attracted over 94,000 people to its breweries in 2019 with an estimated economic impact of \$38.5 million. The entire region is a draw for tourists due to the numerous lake shore cities and towns, campgrounds and RV parks, and a myriad of attractions. The total revenue collected from state and local taxes is approximately \$440 million. Grand Rapids / Kent County has a 5.3% share of all tourism spending for the state of Michigan.

West Michigan is vibrant and growing, bringing in new residents every year. The lakeshore appeals to previous city dwellers while Grand Rapids' growth has been fueled by millennials who are attracted to the city's culture, job prospects, affordable cost of living, and quality of life. According to a study in 2019 by The National Association of Realtors (NAR), Grand Rapids is ranked the No. 2 destination in the country for millennials. Grand Rapids has several other notable rankings as well, including three from U.S. News and World Report including the 13th "Best Place to Live", 6th "Best Place to Retire", and the 6th "Most Affordable Place to live". Financial technology company SmartAsset ranked Grand Rapids #1 on their list of "Best Places to Buy a 1st Home".

### DEMOGRAPHICS

1,987,303

Population



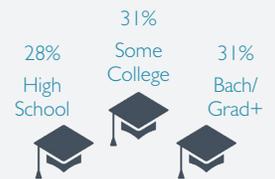
759,816

Households

\$57,036



Median Household Income



Education

67,513



Total Businesses

1,008,587



Total Employees

Source: Esri

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### INDUSTRIAL OVERVIEW

#### LOW SUPPLY AND HIGH DEMAND SPURRING MORE CONSTRUCTION OF WAREHOUSE AND DISTRIBUTION SPACE

The warehouse and distribution sector in West Michigan remains in high demand. Initially as COVID-19 began spreading in the United States, West Michigan saw a brief pause before quickly bouncing back stronger than ever. The airport submarket is the strongest performer with several projects planned or proposed to try and keep up with demand.

Amazon opened a new facility near the airport in early 2020 and it's served as a catalyst for more demand from smaller companies looking for space nearby. Amazon is already planning a new facility on the northwest side of the market, smaller than the previous one which was 855,000 square-feet. While not a done deal yet, the \$10.1 million 113,000 square-foot facility will be a sorting and delivery center at 4 Mile Road NW and Hendershot Avenue in Walker. The project has already been approved by the Walker Planning Commission. The target date for completion is July 2021 and the facility will employ between 150-200 workers and another 300-400 contractors.<sup>1</sup>

West Michigan has a history of furniture making. With so many people working from home, home improvement and remodeling is booming. Some manufacturers on the residential side have had supply chain delays in getting raw materials for construction. As supply chains regain their footing, these companies are working through a backlog of orders with months-long delays for some customers. Other manufacturers, primarily those in office furniture, have seen a slow-down as people work from home and companies put off decisions on new office furniture or office remodels. Many are taking a wait-and-see approach on the virus. There have been some lay-offs in this segment.

The food distribution segment has also had some lay-offs. West Michigan is home to large distributors in this category, such as Gordon Food Service and Sysco that supply restaurants and schools. With restaurants still at only 50% capacity in Michigan more lay-offs could happen, especially if another lock-down is instituted as virus cases rise.

Notable construction projects in West Michigan:

- A 160,000 square-foot building is under construction near Gerald R. Ford International Airport. Alro Plastics will lease 65,000 square-feet. The project is expected to be complete in Spring 2021.
- A 90,000 square-foot multi-tenant building is planned for Valduga Business Center at 6192 Valduga Dr SW in Byron Center. The project is projected for Summer 2021.
- Also in Bryon Center, south of the Valduga Business Center a pair of flex space buildings are under construction that will add 162,500 square-feet of new space to the market.

### TRENDS

- Demand remains high for warehouse and distribution space, which is expected to drive construction of more spec buildings.
- West Michigan is experiencing record low industrial vacancy rates and that's expected to continue into 2021.
- Conversion of retail or office space may be needed to keep up with demand for industrial.
- Asking rents are expected to rise as supply lags behind demand.
- Demand has been highest in the 5,000 - 10,000 and 20,000-30,000 square-foot ranges.
- Private owners and users are taking advantage of low interest rates, further driving demand.



1. <https://www.mlive.com/news/grand-rapids/2020/10/amazons-plans-to-build-10m-building-in-walker-approved-by-city.html>

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### OFFICE OVERVIEW

**SUBLEASE SPACE IS ON THE RISE, ALONG WITH COMPANIES SEEKING NEW SPACE IN THE SUBURBS**

The demand for office space in Grand Rapids, particularly downtown, was robust prior to the arrival of COVID-19. When the virus began spreading, it was hard to predict just how the office market would shake out throughout the year. While Presidential election years can typically see lower real estate transactions as owners and decision-makers take a wait-and-see approach to major business decisions, social unrest, including protests and riots, and a rise in the homeless population have had an impact as well.

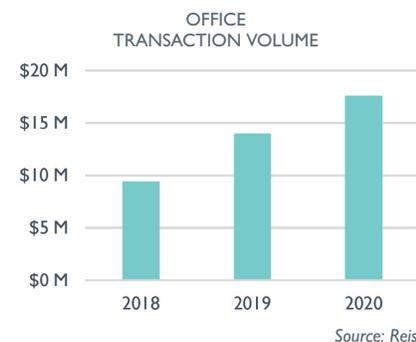
Grand Rapids' office market is experiencing an increase in sublease space as companies recognize less is more. Typically a 30-50% reduction from their previous square footage needs due to many employees still working from home. The suburban office space allows for easier access which includes parking, but also less crowded elevators and allows many employees to be closer to the office. Workers are juggling the demands of their jobs and family obligations, including school closures, remote learning and available child care, which is a driver behind this trend. Flexibility has become key for office workers and instead of a typical 8-5 office day, employees are viewing the office as the "company resource center". Much like a library, they can show up, get what they need, attend meetings, and work in private offices for part of the day or week and then spend the rest of the time working from home. Many companies are also using a staggered shift option to limit the amount of people in the office at a time.

Sublease space is at a discount for office seekers as rates are approximately 10-20% below market rents. Sublease deals can also include benefits such as short term leases, free furniture, rent abatements, or subsidized tenant improvements. Sublease space, also referred to as shadow space, has not had a huge effect on landlords thus far as most are receiving the majority of their rental payments. Soon sublease space will put pressure on market rates and could ultimately put pressure on landlords to drop their rates if they want to compete for new tenants in the open market.

Office layouts have begun to change in the market as well. While cubicles will still exist in some offices, they're getting larger and may include higher walls or plexiglass dividers. Private offices and/or team rooms instead of open floor plans that have dominated for the last several years are presently preferred. Employee safety and confidence in the work environment will likely continue to drive this trend until the virus is contained and a vaccine becomes widely available.

Office owners in the West Michigan market so far haven't been making major technology investments to buildings yet, such as upgrades to HVAC systems or ultraviolet lights, however, we may see more of this in 2021 as more office leases begin to expire. It's a wait-and-see approach as owners try to juggle expensive upgrades with market demand. They are however, doubling down on their janitorial expenses to ensure a clean and safe working environment. Over time, this will likely lead to higher CAM charges.

The current outlook for office remains uncertain through the end of the year. Likely, some of these trends are only temporary, but there's no doubt that some changes we see today could become the norm.



### TRENDS

- Office tenants will continue to assess their space needs, with some deciding to reduce their square footage.
- Sublease space will continue to hit the market, putting downward pressure on market rents.
- Suburban office space will likely continue to see higher demand for the foreseeable future as companies seek to have offices in less dense and more convenient locations to workers.
- Private offices, versus open floor plans will be preferred and more build-outs are expected to upgrade existing open floor plans.
- Janitorial expenses have risen and will likely lead to higher CAM charges.

1. [https://www.southbendtribune.com/news/education/could-mishawaka-schools-take-back-the-city-hall-building/article\\_cc3e023c-62db-11ea-872a-e7f4b7d8a4db.html](https://www.southbendtribune.com/news/education/could-mishawaka-schools-take-back-the-city-hall-building/article_cc3e023c-62db-11ea-872a-e7f4b7d8a4db.html)

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### RETAIL OVERVIEW

TRANSACTIONS SLOWER, BUT RETAIL IS STILL IN DEMAND THROUGHOUT WEST MICHIGAN

Nationally, retail has been struggling since the beginning of the pandemic. Mandated closures of restaurants, bars, and retail stores have certainly contributed to some business closures. However, several of these businesses were already struggling before the virus hit. New projects were also delayed by several months, due to construction shutdowns, but most have proceeded with their plans to open. Despite these challenges, the West Michigan retail sector has remained active.

It's clear that restaurants have been one of the hardest hit segments this year, but many have learned to pivot and to innovate to stay afloat in uncertain times. Additionally, local municipalities in West Michigan are working with restaurant owners and landlords to reduce regulation restricting alcohol sales and expanding patio spaces and closing streets to accommodate more outdoor dining. Going into the winter months, restaurant operators are investing in outdoor heaters, fire bowls, and even igloos to keep customers coming back through the winter. Restaurants are also looking to add designated pick-up spaces for carry-out orders and/or seeking drive-thrus.

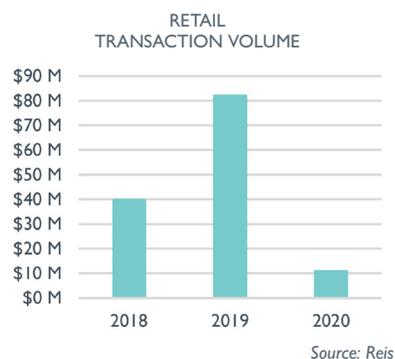
Grand Rapids has remained an active market for restaurants with both national chains and strong locals. Several new restaurants are opening across the market. Hamburger Mary's, a chain with 16 locations across several states is opening its first Michigan location in Cascade at 6240 28th St SE. The 6,000-square foot restaurant opened in the fall with great success and fanfare. Other restaurants that have recently opened or will open soon include a southern concept, Tupelo Honey Cafe, which opened its first Michigan location in downtown Grand Rapids in September. Lalo's Mexican Grill & Bar is opening a location in Ada. Culver's is also continuing to expand in West Michigan, the newest location will open in Ionia later this year.

Art Van Furniture announced in March it was closing all locations of the chain in 4 states. By May, Loves Furniture and Mattresses announced it was opening 18 of the former Art Van locations in Michigan by late summer. Five of the locations are in West Michigan, demonstrating the strength of the market and that demand is still high for well-located real estate.

Tenant retention in the market has remained strong in Class A retail centers. B and C class spaces may see higher vacancies as tenants close or relocate in the market, but there are tenants in this segment that will look for deals and backfill some of the space.

Grocery retailers have done exceptionally well throughout the pandemic. SpartanNash, headquartered in Grand Rapids is the 5th largest food distributor in the country with 12 distribution centers and 155 grocery stores in several states. SpartanNash has had Amazon as a customer since 2016 and in October issued a stock warrant to an Amazon.com Inc. affiliate worth nearly \$97 million through 2027. Amazon is now poised to become the distributor's largest institutional shareholders.

Another trend to watch in the West Michigan market is the merger of breweries. This trend began last year with a few announced but a couple more have happened this year. The pandemic may accelerate this as some smaller breweries may be struggling financially after the shutdowns this year.



### TRENDS

- COVID-19 has expedited the closures of retailers and restaurants that were struggling pre-pandemic. More closures are expected through the end of the year and into 2021.
- Medical tenants will continue to open in traditional retail spaces as they seek more convenience and visibility for patients.
- Drive-thrus have become a must-have. More restaurants will likely close locations where they lack a drive-thru and seek new locations.
- Tenants have an opportunity to restructure leases for more favorable terms.
- Retail Marijuana is thriving and municipalities that were first to support marijuana businesses are now expanding the rules and regulations to encourage more growth and tax revenue.
- Banks will likely reduce physical footprints in favor of more drive-thrus and virtual banking - freeing up some prime locations for reuse or redevelopment.

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**FORMER BRANN'S RESTAURANT**  
700 MARTIN LUTHER KING DRIVE, PORTAGE MI

- This is a very clean, well-maintained, freestanding restaurant building. All FF&E is included. Could be reopened tomorrow
- Pristine condition
- Great location on the Crossroads Mall Ring Road
- Near residential, schools, & churches
- Includes all furniture, fixtures, & equipment
- Liquor license available



**TIMBERLAKE RESORT & RV CLUB**  
4370 NORTH RIDGE ROAD, MEARS MI

- Only 5 minutes north of Silver Lake Sand Dunes, the resort is located on 280 beautiful wooded acres, including its own private lake and 243 feet of private beach on Lake Michigan
- With an existing income stream and undeveloped 170 acres, this is the perfect opportunity for an owner or investor to acquire an RV resort with plenty of land and upside



**BRIDGEWATER PLACE**  
333 BRIDGE STREET NW, GRAND RAPIDS, MI

- Incredible views of downtown Grand Rapids, the Grand River, and the surrounding west side neighborhood
- Full-service amenities including: cafe, banquet center, fitness center, copy and design center, ATM, concierge services, and connected parking ramp
- Attached multi-level parking garage that provides convenient building access and 1,380 spaces including 375 spaces for visitors

# BROKERAGE



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